

U S WEST, Inc.
Suite 700
1020 Nineteenth Street, NW
Washington, DC 20036
202 429-3136
FAX 202 296-5157

ORIGINAL

EX PARTE OR LATE FILED

USWEST

Kenneth T. Cartmell
Executive Director - Federal Regulatory

October 14, 1999

EX PARTE

RECEIVED

OCT 14 1999

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 - 12th Street, SW, TW-A325
Washington, DC 20554

RE: CC Docket Nos. 96-45 and 97-160
Cost Proxy Model Proceeding

Dear Ms. Salas:

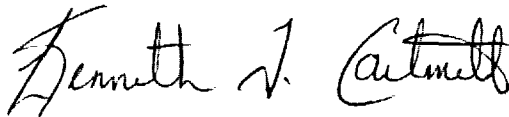
On October 13, 1999, Melissa Newman, Frank Hatzenbuehler, Peter Copeland and the undersigned, representing U S WEST, met with Sarah Whitesell, Legal Advisor to Commissioner Tristani, to discuss the above-referenced proceeding. The attached material was distributed at the meeting and served as the basis of the discussion.

In accordance with Section 1.1206(b)(2) of the Commission's rules, an original and three copies of this letter and attachment are being filed with your office for inclusion in the public record of this proceeding.

A courtesy copy of this presentation will be sent to Katie King, Common Carrier Bureau.

Acknowledgment and date of receipt of this submission are requested. A duplicate of this letter is attached for this purpose.

Sincerely,



Attachments

cc: Ms. Sarah Whitesell
Ms. Katie King

UNIVERSAL SERVICE

FCC PRESENTATION

October 13, 1999

Tentative Conclusions Do Not Comply With the Act

- Current Fund is Insufficient to Make Implicit Subsidies Explicit.
- Hold Harmless Protection Perpetuates Existing High Cost Support.
- Together These Conclusions Guarantee No Change to the Status Quo.
- If You Want to Maintain Status Quo, Why Have a Model???

Tentative Conclusions Do Not Comply With the Act

- In All 14 States Where U S WEST Operates, U S WEST Receives \$15 Million.
- Commission's Model Has 1.2 Million U S WEST lines in Density Groups of < 100 lines per square mile.
- Total Cost of These Lines = \$938 Million (\$65.35/line/month) According to Commission's Model.
- According to the Commission's Model with their Defaults, U S WEST Would Receive \$458 Million for its two Highest Density Groups, with a \$31 Benchmark.
- The Cost of These Lines is Recovered Through Implicit Subsidies.

Where Do the Implicit Subsidies Come From?

- Business to Residential
 - Business Rates Are on Average 2.5 Times Greater than Residential Rates.
 - Business SLC is 2.5 Times Greater than Residential SLC.
- Interstate and Intrastate Access to Residential
- Residential to Residential
 - State-wide Averaging (Urban to Rural)

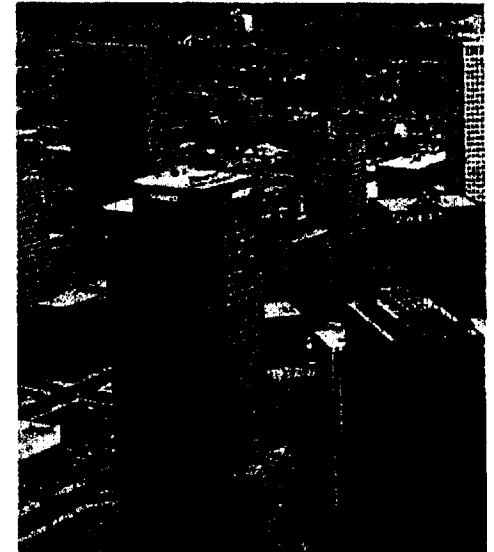
Commission's Model is Fatally Flawed

- Commission's Model Does Not Comply With its Own Rules.
- Commission's Model is Fraught With Errors.
- Commission's Model Logic Is Flawed.
- Commission's Model Does Not Include Sufficient Facilities to Serve Demand.
 - Equipment is Missing
 - Distances Are Understated
- Inputs For Material Prices and Expenses Are Understated.
- Overall Effect is Understatement of Investment and Cost.
- Level of Detailed Data Necessary To Accurately Model High Cost Households Impossible to Obtain.

Commission's Model is Fatally Flawed

Downtown Denver - 1801 California Street Example:

- 52 Story Building - U S WEST Corporate Headquarters.
 - Total of 30 Tenants in Building.
 - 13,800 Lines.
- Commission Model:
 - Puts Each Tenant in a Small Lot as if it is Single Family Residential Housing.
 - While the Model Portrays 30 Lots with 460 Lines/Lot, Nevertheless....
 - Uses a Single Drop Wire for Each Lot that Serves a Maximum of 2 Lines.
 - Uses a Single Network Interface Device (NID) for Each Lot That Serves a Maximum of 3 Lines.
 - Uses a Single Drop Terminal for Every 4 Lots (1840 Lines) That Serves a Maximum of 25 Lines.
 - The Commission Model only Deploys Enough Plant to Serve 60 Lines of 13,800 Lines in the U S WEST Headquarters Building.
- Commission Model Does Not Deploy Enough Equipment For a Network to Work.



Commission's Model is Fatally Flawed

Rural - Douglas, WY Example:

- Small Town In Eastern WY Surrounded by Widely Spread Ranches in High Desert Environment.
- Wire Center Serves 4,500 lines in a 3,300 Square Mile Area.



- Commission Model

- One "Cluster" of nine Customers has a Distance of over 40,000 Feet Between the Most Outlying Customers in the Cluster.
- Model Deploys Less than 25,000 Feet of Cable in the Area. Not Enough to Connect the Customers to Their Interface with the Main Cable to the Switch.
- Closest Neighbors in the "Cluster" of nine 1,700 Feet apart. Next Closest Set of Neighbors (Over 2.5 Miles Away) are Over 4,300 Feet Apart.
- Model Deploys Only 3 Drop Terminals for the nine Customers to Share. Drop Terminals Must Be Within 500 Feet of the House For The Network to Work Effectively.

- Commission Model Does Not Deploy Enough Equipment For a Network to Work - at most 3 of Nine customers get served.

U S WEST's Proposed Simplified Methodology

- Geographic Screen to Qualify High Cost Areas.
 - 100 Lines Per Square Mile
- Simplified Formula Using Distance and Density to Produce Relative Cost For Qualifying Areas.
- Distribute Available Funds Based on Relative Cost.

U S WEST's Proposed Simplified Methodology

- Absolute Cost Is Not Necessary.
- Relative Cost Focuses on Two Main Cost Drivers:
 - Distance
 - Density
 - Two Cost Drivers Explain 90% of Cost Variance.
- Accurate Relative Cost is Superior to Flawed Specific Cost.

Benefits of Simplified Methodology

- More Easily Explainable and Understandable.
- Commission's Model Will Generate Endless Controversy and Litigation.
- Distance and Density are Easily Measurable and Verifiable.
- Accurate Data on Distance and Density is Easily Obtainable.

RECOMMENDATIONS

- Establish a Federal High Cost Fund to Support Universal Service in High Cost Areas.
 - Tentative Conclusions Maintain Status Quo Which Ignores Much of the Nation.
- Abandon The Commission's Model And Adopt A Simpler, More Accurate And Fair Methodology To Provide Sufficient Funding and Properly Target Universal Service Funds.
- Do Not Continue to Drive Down Interstate Access Charges Without Establishing A Sufficient Universal Service High Cost Fund.

Where Distance and Density make a Difference

